



Saskatchewan
Finance

Annual Report 2003-2004

Saskatchewan Pension Annuity Fund

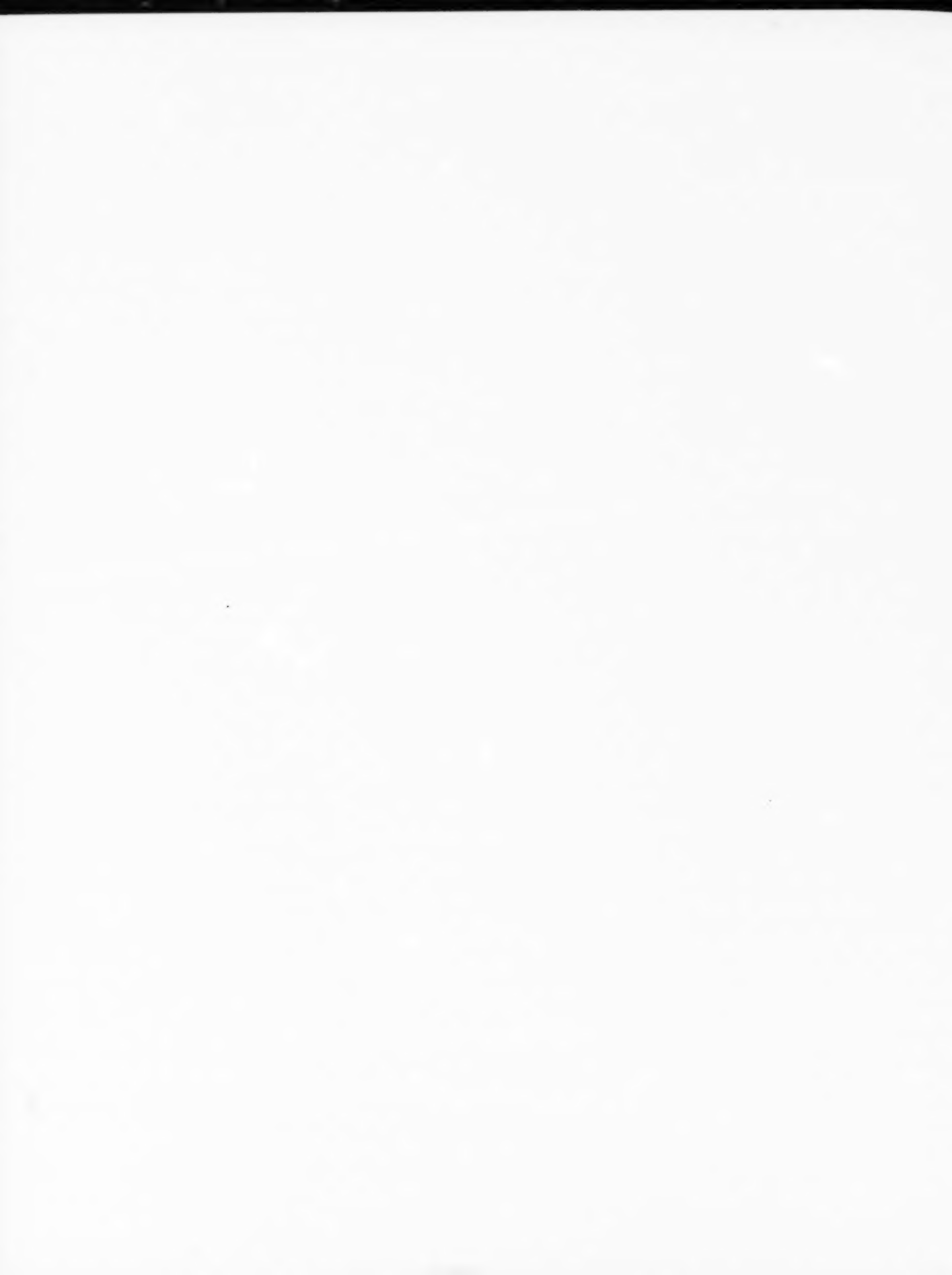


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Saskatchewan
Finance

Her Honour, The Honourable Dr. Lynda M. Haverstock
Lieutenant Governor of the Province of Saskatchewan
Government House
4607 Dewdney Avenue
Regina, Saskatchewan
S4P 3V7

Dear Madam:

Letter of Transmittal

I have the honour to transmit herewith the Annual Report of the Saskatchewan Pension Annuity Fund for the fiscal year ending March 31, 2004.

I have the honour to be, Madam,

Your obedient servant,

A handwritten signature in dark ink, appearing to read 'Harry Van Mulligen', with a long, sweeping horizontal stroke extending to the right.

Harry Van Mulligen
Minister in Charge
Saskatchewan Pension Annuity Fund



Saskatchewan
Public Employees
Benefits Agency

The Honourable Harry Van Mulligen
Minister in Charge
Public Employees Pension Plan
Regina, Saskatchewan

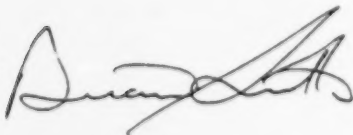
Sir:

Letter of Transmittal

On behalf of the Pension Board of the Public Employees Pension Plan, I have the honour to present herewith the Annual Report of the Saskatchewan Pension Annuity Fund for the fiscal year ending March 31, 2004.

Respectfully submitted,

Pension Board
Saskatchewan Pension Annuity Fund

A handwritten signature in black ink, appearing to read "Brian Smith".

Brian Smith
Chairman

Saskatchewan Pension Annuity Fund

Introduction

The Saskatchewan Pension Annuity Fund (SPAF) was created for members of the Public Employees Pension Plan who want to purchase an annuity as their source of retirement income. Members of the Public Employees Pension Plan are able to purchase annuities from the SPAF upon retirement. The *Saskatchewan Pension Annuity Fund Act* governs SPAF.

Public Employees Pension Board

Chairman

Brian Smith

Public Employees Benefits Agency

Representing Employers

Jim Graham

Saskatchewan Finance

Denise Macza

Saskatchewan Finance

Grant Ring

Saskatchewan Power

Representing Employees

Robert Bender

Communications Energy and Paperworks Union
(CEP)

Kirby Sanden

International Brotherhood of Electrical Workers
(IBEW)

Dan MacKay

Saskatchewan Government Employees' Union
(SGEU)

Investment of Funds

The Public Employees Pension Plan Board (Pension Board) is responsible for holding in trust and investing the monies in the Fund. The Pension Board has retained Greystone Capital Management Inc. as its investment manager.

Greystone Capital Management Inc. continues to manage an immunized bond portfolio.

The investment manager makes the day-to-day decision of whether to buy or sell specific investments in order to achieve the long term investment performance objectives set by the Board. It is these long term investment performance objectives that the Pension Board uses to assess the performance of the investment managers.

The investment objectives are:

- to structure the investment portfolio so that the Annuity Fund's net assets are immune to changes in the level of interest rates;
- to provide sufficient liquidity to ensure payment to retired members when due; and
- to ensure long-run solvency.

To achieve the above objectives, the assets of the Fund should be invested so that:

- the duration of the investment portfolio is matched with the duration of the liabilities on an ongoing basis. The matching should fall within a band of -.5 to +.5 years of the duration target;
- the portfolio includes sufficient short term investments to meet liquidity needs; and
- the present value of the asset cash flow stream exceeds the present value of expected liability payments.

The Pension Board has retained Royal Trust as the custodian of the Fund. The custodian is responsible for custody of all financial assets of the Fund (in the name of the Saskatchewan Pension Annuity Fund). The custodian settles all investment transactions. The custodian also ensures that investment income (ie. dividends, interest) is collected and provides financial statements for all investment transactions.

The Pension Board engages the services of an asset consultant to provide advice on the overall management of the Fund's investments and on the measurement of the Fund's performance. James P. Marshall, Inc. provides this service to the Pension Board.

Annuities

The Saskatchewan Pension Annuity Fund paid a total of \$10,832,701 in annuities to 1,865 members, or spouses of members, from the Public Employees Pension Plan and Members of the Legislative Assembly Superannuation Plan during the 2003/2004 fiscal year.

Effective September 1, 2002 the Members of the Legislative Assembly Superannuation Plan was disestablished and members from this Plan became members of the Public Employees Pension Plan.

Administration of the Fund

The Pension Board retains the Public Employees Benefits Agency, Saskatchewan Finance to provide the day-to-day administration of the Fund.

The annual operating expenditures associated with the Fund's administration are paid to the Public Employees Benefits Agency Revolving Fund and are charged to the Saskatchewan Pension Annuity Fund.

MANAGEMENT'S REPORT

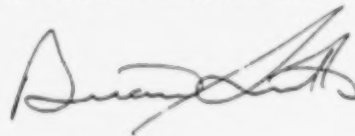
To the Members of the Legislative Assembly of Saskatchewan

The Public Employees Pension Plan Pension Board consists of seven appointments made by the Lieutenant Governor in Council. The Pension Board is comprised of a Chairman nominated by the Minister, three members representing the employees and three members representing the employers. The Pension Board is responsible for financial administration, administration of the funds and management of assets.

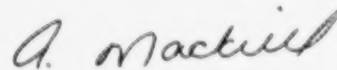
The financial statements, which follow have been prepared by management in conformity with accounting principles generally accepted in Canada and have been approved by the Pension Board. Management uses internal controls and exercises its best judgement in order that the financial statements reflect fairly the financial position of the Fund.

The present value of annuities is determined by an actuarial valuation. Actuarial valuation reports require best estimate assumptions about future events, which require approval by management.

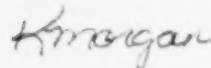
The financial statements have been audited by the Provincial Auditor whose report follows.



Brian Smith
Executive Director
Public Employees Benefits Agency



Ann Mackrill
Director, Pension Programs
Public Employees Benefits Agency



Kathy Morgan
Director, Financial Services
Public Employees Benefits Agency

Regina, Saskatchewan
May 31, 2004

ACTUARIES' OPINION

Eckler Partners Ltd. was retained by the Public Employees Benefits Agency (PEBA) to perform actuarial valuations of the accumulated provision for annuities payable from the Saskatchewan Pension Annuity Fund (Fund) on an accounting basis as at March 31, 2003 and March 31, 2004.

The actuarial valuations of the Fund's accumulated provision for annuities payable were based on:

- Membership and asset data provided by the Public Employees Benefits Agency as at March 31, 2003 and March 31, 2004;
- Methods prescribed by the Canadian Institute of Chartered Accountants for organizations that issue annuities;
- Assumptions about future demographic events which were developed by management and Eckler Partners Ltd. and are considered as management's best estimate of these events; and
- A discount rate chosen to be consistent with the asset values reported in the Fund's financial statements.

While the actuarial assumptions used to estimate the accumulated provision for annuities payable for the Fund's financial statements contained in the Annual Report represent management's best estimate of future events, and while in our opinion these assumptions are reasonable, the Fund's future experience will differ from the actuarial assumptions. Emerging experience differing from the assumptions will result in gains or losses that will be revealed in future valuations, and will affect the financial position of the Fund.

We have tested the data for reasonableness and consistency with prior valuations and in our opinion the data is sufficient and reliable for the purposes of the valuation. We also believe that the methods employed in the valuation and the assumptions used are, in aggregate, appropriate. Our opinions have been given and our valuation has been performed in accordance with accepted actuarial practice.



John Corp, FIA, FCIA
Eckler Partners Ltd.

May 31, 2004

SASKATCHEWAN PENSION ANNUITY FUND

FINANCIAL STATEMENTS

YEAR ENDED MARCH 31, 2004

AUDITOR'S REPORT

To the Members of the Legislative Assembly of Saskatchewan

I have audited the statement of financial position of the Saskatchewan Pension Annuity Fund as at March 31, 2004 and the statements of operations and net assets (deficit) and cash flows for the year then ended. The Fund's management is responsible for preparing these financial statements for Treasury Board's approval. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with Canadian generally accepted auditing standards. Those standards require that I plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In my opinion, these financial statements present fairly, in all material respects, the financial position of the Fund as at March 31, 2004 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.



Regina, Saskatchewan
May 31, 2004

Fred Wendel, CMA, CA
Provincial Auditor

**SASKATCHEWAN PENSION ANNUITY FUND
STATEMENT OF FINANCIAL POSITION**

STATEMENT 1

AS AT MARCH 31

	<u>2004</u>	<u>2003</u>
ASSETS		
Investments (Note 3)		
Short-term	\$ 6,527,429	\$ 902,220
Bonds and debentures	117,816,886	114,263,106
	<u>124,344,315</u>	<u>115,165,326</u>
Receivables		
Accrued investment income	1,833,146	1,761,135
Members' contributions	122,860	224,070
	<u>1,956,006</u>	<u>1,985,205</u>
Due from General Revenue Fund (Note 4)	181,354	189,307
Cash	<u>---</u>	<u>1,496</u>
Total Assets	<u>\$126,481,675</u>	<u>\$117,341,334</u>
 LIABILITIES AND NET ASSETS		
Liabilities:		
Bank indebtedness	\$ 288	\$ ---
Administration expenses payable	42,267	56,928
Accumulated provision for annuities payable (Note 5)	126,420,000	117,141,000
Total Liabilities	126,462,555	117,197,928
Net Assets (Statement 2)	<u>19,120</u>	<u>143,406</u>
Total Liabilities and Net Assets	<u>\$126,481,675</u>	<u>\$117,341,334</u>

(See accompanying notes to the financial statements)

SASKATCHEWAN PENSION ANNUITY FUND
STATEMENT OF OPERATIONS AND NET ASSETS (DEFICIT)

STATEMENT 2

YEAR ENDED MARCH 31

	<u>2004</u>	<u>2003</u>
REVENUES		
Transfers from designated plans	\$12,038,465	\$15,359,148
Investment income	<u>8,146,528</u>	<u>7,332,978</u>
Total Revenue	<u>20,184,993</u>	<u>22,692,126</u>
EXPENSES		
Change in accumulated provision for annuities payable (Note 5)	9,279,000	11,849,000
Annuities	10,832,701	9,946,249
Administration (Note 7)	<u>197,578</u>	<u>229,596</u>
Total Expenses	<u>20,309,279</u>	<u>22,024,845</u>
Net (loss) income for the year	(124,286)	667,281
Net assets (deficit), beginning of year	<u>143,406</u>	<u>(523,875)</u>
Net assets, end of year – to Statement 1	<u>\$ 19,120</u>	<u>\$ 143,406</u>

(See accompanying notes to the financial statements)

**SASKATCHEWAN PENSION ANNUITY FUND
STATEMENT OF CASH FLOWS**

STATEMENT 3

YEAR ENDED MARCH 31

	<u>2004</u>	<u>2003</u>
Cash flows from (used in) operating activities:		
Transfers from designated plans	\$ 12,139,676	\$ 15,561,883
Investment income received	6,487,092	5,676,692
Annuities paid	(10,832,701)	(9,946,249)
Administration expenses paid	(212,239)	(192,068)
	<u>7,581,828</u>	<u>11,100,258</u>
Cash flows from (used in) investing activities:		
Purchase of investments	(104,359,607)	(50,387,915)
Proceeds from disposal of investments	96,768,042	39,099,520
	<u>(7,591,565)</u>	<u>(11,288,395)</u>
Net decrease in cash and cash equivalents	(9,737)	(188,137)
Cash and cash equivalents, beginning of year	<u>190,803</u>	<u>378,940</u>
Cash and cash equivalents, end of year	<u>\$ 181,066</u>	<u>\$ 190,803</u>
Cash and cash equivalents are comprised of:		
Due from General Revenue Fund	\$ 181,354	\$ 189,307
Cash	---	1,496
Bank indebtedness	(288)	---
Cash and cash equivalents	<u>\$ 181,066</u>	<u>\$ 190,803</u>

(See accompanying notes to the financial statements)

SASKATCHEWAN PENSION ANNUITY FUND NOTES TO THE FINANCIAL STATEMENTS

MARCH 31, 2004

1. Description of Plan

The Public Employees Pension Board (Pension Board) administers the Saskatchewan Pension Annuity Fund (Fund). The day-to-day administration is provided by the Public Employees Benefits Agency (PEBA). The Fund operates pursuant to Section 5 of *The Saskatchewan Pension Annuity Fund Act* (Act). Further information about the Fund can be found in the Act.

The purpose of the Fund is to provide annuities to members of designated pension plans. Designated pension plans include Public Employees Pension Plan and Members of the Legislative Assembly Superannuation Plan (disestablished September 1, 2002). Members of a designated plan may, upon retirement, elect to receive an annuity from the Fund, as an alternative to purchasing an annuity from a private company that issues annuities. Those electing to receive an annuity from the Fund transfer their accumulated contributions and investment income from their designated plan to the Fund at the time of retirement.

Subsection 5(7) of the Act requires any amount by which the liabilities of the Annuity Fund exceed the assets of the Fund to be a charge on, and a payable out of, the General Revenue Fund. As the annuities payable are long-term liabilities, and management does not expect to require funding to meet their current obligations, the Fund has not recorded any amount as a receivable from the General Revenue Fund.

2. Significant Accounting Policies

These financial statements are prepared in accordance with Canadian generally accepted accounting principles. The Fund follows accounting policies recommended for organizations that issue annuities. The following accounting policies are considered significant:

a) Investments

Short-term investments are recorded at cost. Bonds and debentures are recorded at amortized cost. Premiums and discounts on the acquisition of bonds and debentures are amortized to earnings over the term of the security. Gains and losses realized upon the sale of bonds and debentures are amortized to income over the remaining term to maturity of the investments sold.

b) Accumulated Provision for Annuities Payable

The accumulated provision for annuities payable represents the present value of the annuities underwritten by the Pension Board and is determined pursuant to an annual actuarial valuation.

Any resulting change in the accumulated provision for annuities payable pursuant to the valuation is recognized in the statement of operations and net assets (deficit).

3. Investments

The investment objectives of the Pension Board are to structure the investment portfolio to limit the effect on the Fund arising from changes in the level of interest rates, to provide sufficient liquidity for payments to annuitants when due, and to ensure long-term solvency.

The Fund holds investments in long-term bonds with terms matching the remaining life expectancies of annuitants.

The projected cash inflows over the life of the Fund are expected to meet the cash outflows.

a) Interest Rate Risk

Interest rate risk refers to the adverse consequences of interest rate changes on the Fund's cash flows, financial position and income. This risk arises from differences in the timing and amount of cash flows related to the Fund's assets and liabilities. Interest rate risk is managed by investing in fixed income investments that provide cash flows that match payments to annuitants.

The value of the Fund's assets is affected by changes in nominal interest rates.

b) Credit Risk

Credit risk arises from the potential for issuers of securities to default on their contractual obligations to the Fund. The Pension Board limits the credit risk of the Fund by dealing with issuers that are considered to be high quality. The credit ratings used to describe the securities below are based on the Dominion Bond Rating Service and/or the Standard and Poor's and/or Moody's Investors Services.

Short-term Investments

Short-term investments are comprised of T-Bills and notes with effective rates of 2.00% to 2.30% (2003 - 3.00% to 3.20%) and an average remaining term to maturity of 35 days (2003 - 28 days). The Fund's investment policy states that investments must meet a minimum investment standard of "R1" as rated by a recognized credit rating service.

Bonds and Debentures

The Fund's investment policy states that government bonds must meet a minimum quality standard of BBB as rated by a recognized credit rating service. No more than 15% of the par value of the bond portfolio may be invested in BBB rated bonds. At March 31, 2003 and 2004, the Fund held none of its portfolio in BBB bonds.

No more than 10% of the market value of the bond portfolio may be invested in corporate bonds. At March 31, 2004 the Fund held 2.90% (2003 - 2.90%) of the market value of bonds and debentures in corporate bonds. The minimum credit rating for corporate bonds is "A" or equivalent as rated by a recognized credit rating service.

(in thousands of dollars)									
2004							2003		
Years to Maturity	Market Value			Total	Yield to Maturity at Market	Coupon Rate	Total Market Value	Yield to Maturity at Market	Coupon Rate
	Federal	Provincial	Corporate						
Under 1	294	264	-	558	4.3	0.00-9.63	638	1.8	0.00-7.90
1 - 5	12,948	5,397	-	18,345	3.5	0.00-8.75	15,406	4.6	0.00-9.62
5 - 10	13,724	13,926	3,054	30,704	5.2	0.00-10.60	25,419	4.3	0.00-10.60
Over 10	23,093	58,399	772	82,264	4.9	0.00-11.25	79,639	5.4	0.00-11.25
Market Value	50,059	77,986	3,826	131,871			121,102		

Actual maturity may differ from contractual maturity because certain borrowers have the right to call or prepay certain obligations with or without call or prepayment penalties.

The Fund's investments are comprised of:

	(in thousands of dollars)			
	2004		2003	
<u>Bonds and Debentures</u>	<u>Cost</u>	<u>Market Value</u>	<u>Cost</u>	<u>Market Value</u>
Province of Saskatchewan	\$ 4,118	\$ 4,161	\$ 4,118	\$ 4,000
Other Provincial	86,591	73,824	81,645	65,320
Corporate	3,189	3,826	3,189	3,508
Canada	46,473	50,060	47,724	48,274
Total bonds and debentures at par value	140,371	131,871	136,676	121,102
Net unamortized discounts	(22,514)	-	(22,981)	-
Net deferred losses	(40)	-	568	-
Total bonds and debentures amortized cost	117,817	131,871	114,263	121,102
Short-term investments	6,527	6,527	902	902
Total investments	<u>\$124,344</u>	<u>\$138,398</u>	<u>\$115,165</u>	<u>\$122,004</u>

Investments are recorded at cost because investments are matched with liabilities to minimize interest rate and reinvestment risk. Fair value approximates the market value of investments.

4. Due from General Revenue Fund

The Fund's bank accounts are included in the Consolidated Offset Bank Concentration (COBC) arrangement for the Government of Saskatchewan.

The Fund's earned interest is calculated and paid by the General Revenue Fund on a quarterly basis to the Fund's bank accounts using the Government's thirty day borrowing rate and the Fund's bank account balance. The Government's average thirty day borrowing rate for 2004 is 2.79% (2003 - 2.62%).

5. Accumulated Provision for Annuities Payable

The accumulated provision for annuities payable is the actuarial present value of the expected annuity benefit obligations to annuitants. An actuarial valuation of the Fund was performed as at March 31, 2004 by Eckler Partners Ltd using a discount rate of 6.34% (2003 - 6.44%). The discount rate is based on the average yield to maturity on the fund assets, calculated at amortized cost. For mortality, this valuation and the previous valuation both used 80% of the 1983 Group Annuity Mortality Table mortality rates.

The annual change in the annuities payable is reflected in the statement of operations and net assets (deficit). The principal components of change during the year were as follows:

	(in thousands of dollars)	
	2004	2003
Accumulated provision for annuities payable, beginning of year	\$117,141	\$105,292
Interest on annuities payable	7,410	6,900
New annuities purchased in the year	11,240	14,077
Annuities paid	(10,833)	(9,946)
Change in future administration costs	22	2,578
Experience loss	410	210
Change in assumed discount rate	1,030	(1,970)
Accumulated provision for annuities payable, end of year	<u>\$126,420</u>	<u>\$117,141</u>

An explicit allowance for expenses of 2.10% (2003 - 2.25%) of future annuity payments was made.

The actual rates may vary significantly from the assumptions used. It is reasonably possible, based on existing assumptions, that changes in future conditions in the near term could require a material change in the annuities payable. A 1% increase in the interest rate decreases the liability \$10.0 million (2003 - \$9.3 million) and a 1% decrease in the interest rate increases the liability \$11.7 million (2003 - \$10.9 million).

6. Fair Value of Financial Assets and Financial Liabilities

The following method and assumptions were used to estimate the fair value of each class of financial assets and financial liabilities:

If the accumulated provision for annuities were valued using a discount rate of 5.08% (2003 - 5.80%) based on the average yield to maturity on the assets, calculated using a market value approach, the liability would be approximately \$141 million (2003 - \$124 million).

Fair values of investments are considered to be market values (Note 3).

For the following financial assets and liabilities the carrying amounts approximate fair value due to the immediate or short-term nature:

- a) Cash
- b) Accrued investment income
- c) Members' contributions receivable
- d) Due from General Revenue Fund
- e) Bank indebtedness
- f) Administration expenses payable

7. Administration Expenses

	(in thousands of dollars)			
	2004		2003	
	Budget	Actual	Budget	Actual
Administration costs - PEBA	\$114	\$ 88	\$111	\$131
Custodial fees - Royal Trust	11	8	11	8
Investment management fees - Greystone Capital Management Inc.	84	102	82	90
	<u>\$209</u>	<u>\$198</u>	<u>\$204</u>	<u>\$229</u>

8. Related Party Transactions

All Government of Saskatchewan agencies such as departments, corporations, boards and commissions are related since all are controlled by the Government. Also, the Fund is related to non-Crown enterprises that the Government jointly controls or significantly influences. These financial statements include expenses associated with administering the Fund and are paid to the PEBA Revolving Fund. Related party transactions with the Fund are in the normal course of operations and are recorded at exchange amounts agreed to by the parties to the transactions.

At March 31, 2004, the Fund held \$3,681,551 (2003 - \$3,655,273) Province of Saskatchewan bonds and debentures. Investment income of \$241,760 (2003 - \$241,487) was earned on the Province of Saskatchewan bonds and debentures.

The Fund has an accounts payable as at March 31, 2004 of \$4,132 (2003 - \$16,374) due to the PEBA Revolving Fund.

Other transactions with related parties and amounts due to or from them are described separately in the financial statements and notes.

